

SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
FINANCIAL STATEMENTS
DECEMBER 31, 2005

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board Members
Sevier County Special Service District #1
Richfield, Utah 84701

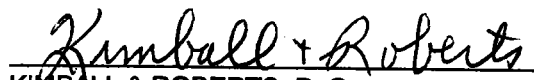
We have audited the accompanying financial statements of the governmental activities of Sevier County Special Service District #1, a component unit of Sevier County, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Governmental activities of Sevier County Special Service District #1 at December 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2006, on our consideration of Sevier County Special Service District #1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 20, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

June 29, 2006
Richfield, Utah

Sevier County Special Service District #1 Management's Discussion and Analysis

The discussion and analysis of Sevier County Special Service District #1, or the "District" financial performance provides an overview of the District's financial activities for the year ending December 31, 2005. This report is in conjunction with the District's financial statements, which are part of this report.

The purpose of the Sevier County Special Service District #1 is to provide general construction services to the Sevier County residents which includes, road maintenance, dust and weed control and road bridge replacements.

Financial Highlights:

- The District does not own any assets or have any long-term liabilities and all roads repaired and bridges replaced in the course of general construction projects become a part of the infrastructure of Sevier County.
- At the close of the current year, the District reported net assets of \$773,085 of which \$465,721 is restricted for highways and bridge projects to be completed during the following calendar year 2006. Contracts have been awarded on these projects. The balance of unrestricted net assets at year end was \$307,364.
- The District does not have any full-time employees and spent less than 2% on administrative costs, leaving more than 98% of the funds to accomplish construction projects on roads and bridges.
- Expenditures for the current year total \$1,803,069. The material expenditures were 1) highway and bridge projects of \$1,775,947 or 98% of total expenditures. and 2) general government operating expenses of \$27,122 or 2% of total expenditures.

Using This Annual Report

This discussion and analysis are intended to serve as an introduction to Sevier County Special Service District #1. The basic financial statements comprise three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with a difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Government-wide financial statements-continued.

The statement of activities present information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Governmental Funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balance of spendable resources available at the end of the year.

The district has one governmental fund, the general fund. The general fund is always a major fund. The general fund has unreserved fund balance of \$307,364, which is available to creditors and for use in future years budgets. Unreserved fund balance is 1.7% of total expenditures in the general fund.

Reporting the District as a Whole

The District realizes revenues from several sources; 1) mineral lease revenues received from the State of Utah, 2) interest earned on invested funds and 3) other local sources.

Condensed Financial Statements:

A comparative analysis is provided below for the years 2005 and 2004.

	<u>2005</u>	<u>2004</u>		<u>2005</u>	<u>2004</u>
Assets:			Revenues:		
Current	1,034,091	445,147	Charges for Services	103,057	66,930
Non-Current	-	-	General Revenues	2,049,502	1,801,466
Total Assets	<u>1,034,091</u>	<u>445,147</u>	Total Revenues	<u>2,152,559</u>	<u>1,868,396</u>
Liabilities:			Expenditures:		
Current	261,006	21,552	Current	1,803,069	1,836,094
Long-Term	-	-	Depreciation	-	-
Total Liabilities	<u>261,006</u>	<u>21,552</u>	Total Expenditures	<u>1,803,069</u>	<u>1,836,094</u>
Net Assets:					
Restricted	465,721	397,029	Change in Net Assets	349,490	32,302
Unrestricted	307,364	26,566	Beginning Net Assets	423,595	391,293
Net Assets	<u>773,085</u>	<u>423,595</u>	Ending Net Assets	<u>773,085</u>	<u>423,595</u>

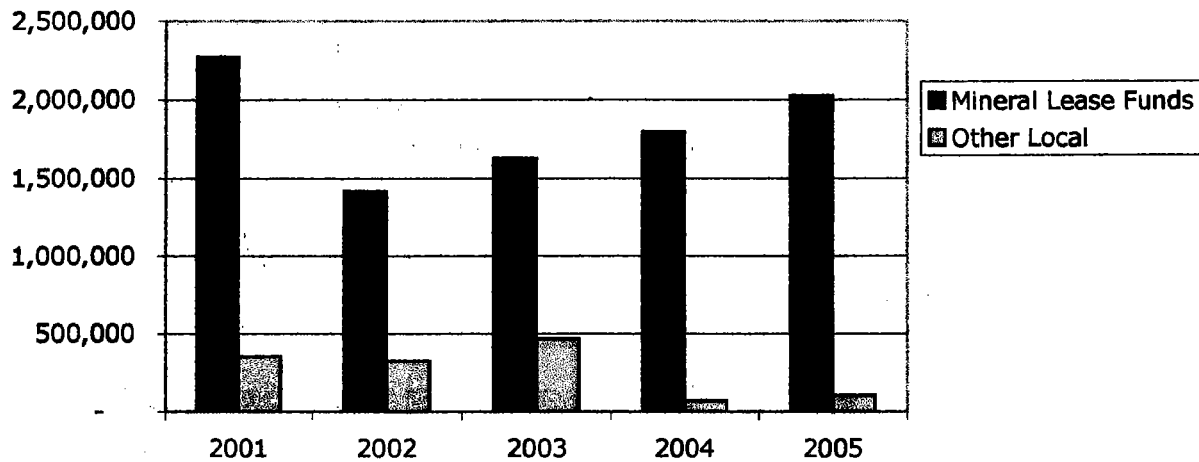
Contacting the District

This financial report is designed to provide the citizens with a general overview of the District's finances and to show accountability for the money it receives. If you have questions about his report or need additional financial information, contact Board Chairman, Wes Sorenson, P.O. Box 356, Richfield, UT 84701.

**Sevier County Special Service District #1
Revenue - Five Year Comparison**

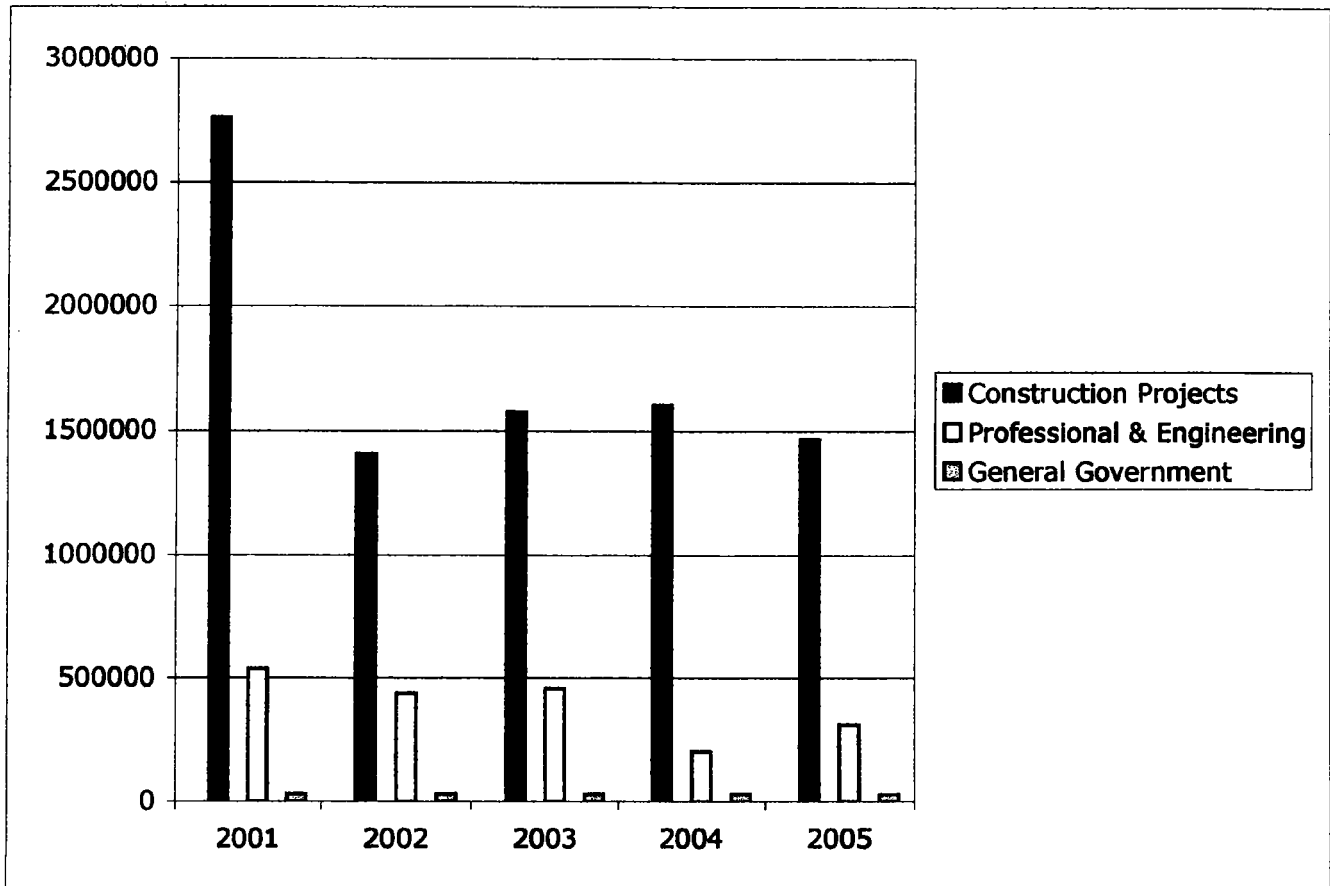
	2001	2002	2003	2004	2005
Mineral Lease Funds	2,272,959	1,417,356	1,625,167	1,795,388	2,022,558
Other Local	352,309	327,401	465,228	66,930	103,057
Investment Earnings	38,297	6,678	4,504	6,079	26,943
Total	2,663,565	1,751,435	2,094,899	1,868,397	2,152,558

Mineral Lease Funds & Other Local



**Sevier County Special Service District #1
Expenditures - Five Year Comparison**

	2001	2002	2003	2004	2005
Construction Projects	2,762,202	1,406,403	1,576,330	1,604,833	1,465,493
Professional & Engineering	535,364	437,488	456,504	200,861	310,453
General Government	30,056	29,874	30,875	30,400	27,123
Total	<u>3,327,622</u>	<u>1,873,765</u>	<u>2,063,709</u>	<u>1,836,094</u>	<u>1,803,069</u>



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is used to assist in formatting, for easier reading)

BASIC FINANCIAL STATEMENTS

**SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
STATEMENT OF NET ASSETS**

December 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Investments	1,015,423
Accounts Receivable	<u>18,668</u>
TOTAL ASSETS	<u><u>1,034,091</u></u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u>261,006</u>
NET ASSETS	
Restricted For:	
Highways and Bridges	465,721
Unrestricted	<u>307,364</u>
TOTAL NET ASSETS	<u><u>773,085</u></u>
TOTAL LIABILITIES NET ASSETS	<u><u>1,034,091</u></u>

The notes to the financial statements are an integral part of this statement.

**SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
STATEMENT OF ACTIVITIES**

For The Year Ended December 31, 2005

	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
Functions/Programs:			
Governmental Activities:			
General Government	27,122	-	(27,122)
Highways and Bridges	<u>1,775,947</u>	<u>103,057</u>	<u>(1,672,890)</u>
 TOTAL REVENUES	 <u>1,803,069</u>	 <u>103,057</u>	 <u>(1,700,012)</u>
 General Revenues:			
State Sources			2,022,558
Unrestricted Investment Earnings			<u>26,943</u>
 Total General Revenues			<u>2,049,501</u>
 Changes in Net Assets			349,489
 Net Assets - Beginning			<u>423,596</u>
 Net Assets - Ending			<u><u>773,085</u></u>

The notes to the financial statements are an integral part of this statement.

**SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
BALANCE SHEET
GOVERNMENTAL FUND**

December 31, 2005

ASSETS

Investments	1,015,423
Accounts Receivable	<u>18,668</u>
TOTAL ASSETS	<u><u>1,034,091</u></u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	<u>261,006</u>
Fund Equity:	
Fund Balance:	
Reserved for:	
Highways and Bridges	465,721
Unreserved	<u>307,364</u>
Total Fund Equity	<u>773,085</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>1,034,091</u></u>

The notes to the financial statements are an integral part of this statement.

SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For The Year Ended December 31, 2005

REVENUE

State Sources	2,022,558
Other Local Sources	103,057
Investment Earnings	<u>26,943</u>

TOTAL REVENUES	<u>2,152,558</u>
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EXPENDITURES

Current Expenditures:

Road Construction Projects	1,465,493
Professional and Engineering	310,454
Other Operating Expenses	<u>27,122</u>

TOTAL EXPENDITURES	<u>1,803,069</u>
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EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	349,489
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UNDESIGNATED FUND BALANCE - BEGINNING OF YEAR	<u>423,596</u>
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UNDESIGNATED FUND BALANCE - END OF YEAR	<u><u>773,085</u></u>
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The notes to the financial statements are an integral part of this statement.

**SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS**

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Sevier County Special Service District #1, a component unit of Sevier County, was created by the adoption of a resolution to establish a special service district by the Sevier County Commissioners on February 20, 1989 for the purpose of improving the County road system in Sevier County. The Special Service District's Administrative Control Board consists of three (3) members, each of whom was appointed by the Board of Commissioners. The Board of Commissioners appointed the initial member to serve a two year term and the remaining two members to serve four year terms. The Board members, at their initial meeting, elected a chairperson and a secretary to serve such terms as the board shall determine.

B. Government-Wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the District, the primary government, as a whole. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State revenue sources and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government. The District's only fund is the General Fund.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables:

All trade receivables are deemed 100% collectible and , therefore, no allowance for uncollectibles is shown.

**SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

E. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - BUDGET PROCESS

Sevier County Special Service District #1 has properly adopted required budgets for 2005. Changes to the adopted budget were properly made by resolution and public hearing of the County Commissioners.

The District follows the budgetary practices and procedures required by State law. These requirements are summarized as follows:

1. A formal budget is adopted by the District.
2. The budget is a complete financial plan that identifies all estimated revenues and all appropriations for expenditures for the year. The budget must balance - that is estimated revenues and expenditures must equal.
3. On or before November 1, the District Manager prepares a tentative budget and files it with the Board of Trustees.
4. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget.
5. Notice of the scheduled public hearing is published at least ten days prior to the meetings.
6. Public hearing are held on the tentatively adopted budget. Members of the public may comment on the budget and recommend changes to the Board of Trustees.

**SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2005

NOTE 3 - INVESTMENTS

Cash and investments as of December 31, 2005, consist of the following:

	<u>Fair Value</u>
Repurchase Agreements	1,015,371
Investments - PTIF	<u>52</u>
Total Cash and Investments	<u><u>1,015,423</u></u>

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Governmental Activities - Unrestricted	465,721
Governmental Activities - Restricted	<u>549,702</u>
Total Cash and Investments	<u><u>1,015,423</u></u>

The Utah Money Management Act (UMMA) established specific requirements regarding deposits of public funds by public treasurers. UMMA requires that District funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations.

PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

**SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2005

NOTE 3 - INVESTMENTS (CONTINUED)

Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits and investments for local government are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk:

Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Credit Risk:

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended December 31, 2005, the local governments has investments of \$52 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2005

NOTE 3 - INVESTMENTS (CONTINUED)

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investments mainly in the PTIF and by adhering to the Money Management Act. The act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Concentration of Credit Risk:

Concentration of credit risk the risk of loss attributed to the magnitude of a government's investments in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

NOTE 4 - ACCOUNTS RECEIVABLE

The amount shown as accounts receivable is for work done before year end on a project named "Quitchipaw Road" for \$18,668 to be paid by Canyon Fuel.

NOTE 5 - ENCUMBERED FUNDS

At December 31, 2005, the District has committed funds for the following construction projects:

<u>Project</u>	<u>Amount</u>
Bridge Projects	234,125
Black Knoll Road	<u>231,596</u>
Total Commitments	<u><u>465,721</u></u>

NOTE 5 - RISK MANAGEMENT

Sevier County Special Service District #1 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; public officials errors and omissions. The District is insured through the Utah Local Governments Trust. The limits of general liability and property damage are \$2,000,000 combined single limit, with a \$0 deductible for each occurrence.

Automobile liability and bodily injury, \$2,000,000 combined single limit. Uninsured and under insured motorize coverage of \$50,000 each accident.

Claims have not exceeded premiums in any of the last three calendar years.

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**REQUIRED SUPPLEMENTARY
INFORMATION
"UNAUDITED"**

**SEVIER COUNTY SPECIAL SERVICE DISTRICT #1
BUDGETARY COMPARISON SCHEDULE
GOVERNMENTAL FUND**

For The Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Budgetary Fund Balance, January 1	<u>423,596</u>	<u>423,596</u>	<u>423,596</u>	<u>-</u>
Resources (Inflows):				
Intergovernmental:				
State Sources	1,860,000	2,050,000	2,022,558	(27,442)
Other Local Sources	-	100,000	103,057	3,057
Investment Earnings	<u>27,900</u>	<u>25,000</u>	<u>26,943</u>	<u>1,943</u>
Total Intergovernmental	<u>1,887,900</u>	<u>2,175,000</u>	<u>2,152,558</u>	<u>(22,442)</u>
Amounts Available for				
Appropriation	<u>2,311,496</u>	<u>2,598,596</u>	<u>2,576,154</u>	<u>(22,442)</u>
Charges to Appropriations (Outflows):				
Current:				
Construction Projects	1,845,900	1,794,900	1,465,493	329,407
Engineering and Other Professional	15,000	296,866	310,454	(13,588)
Other Operating Expenses	<u>27,000</u>	<u>42,100</u>	<u>27,122</u>	<u>14,978</u>
Total Charges to				
Appropriations	<u>1,887,900</u>	<u>2,133,866</u>	<u>1,803,069</u>	<u>330,797</u>
Budgetary Fund Balance, December 31	<u>423,596</u>	<u>464,730</u>	<u>773,085</u>	<u>308,355</u>



COMPLIANCE SECTION

Kimball & Roberts

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Box 663

Richfield, Utah 84701

Phone 896-6488

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Board Members
Sevier County Special Service District #1
Richfield, Utah 84701

We have audited the financial statements of the governmental activities of Sevier County Special Service District #1, a component unit of Sevier County, as and for the year ended December 31, 2005, which collectively comprise Sevier County Special Service District #1's basic financial statements and have issued our report thereon dated June 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sevier County Special Service District #1's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sevier County Special Service District #1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable Board Members
Sevier County Special Service District #1
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This report is intended solely for the information and use of the audit committee, management, and board members and is not intended to be and should not be used by anyone other than these specified parties.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

June 29, 2006
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

The Honorable Board Members
Sevier County Special Service District #1
Richfield, Utah 84701

We have audited the accompanying financial statements of the governmental activities of Sevier County Special Service District #1, a component unit of Sevier County, for the year ended December 31, 2005, and have issued our report thereon dated June 29, 2006. As part of our audit, we have audited Sevier County Special Service District #1's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2005. The District received the following major State assistance program from the State of Utah:

Mineral Lease Monies (Department of Transportation)

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

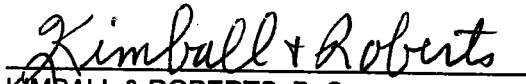
The management of Sevier County Special Service District #1 is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The Honorable Board Members
Sevier County Special Service District #1
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The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Sevier County Special Service District #1, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance programs for the year ended December 31, 2005.

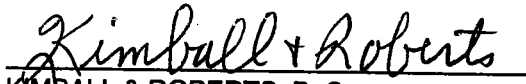

KIMBALL & ROBERTS, P. C.
Certified Public Accountants

June 29, 2006
Richfield, Utah

The Honorable Board Members
Sevier County Special Service District #1
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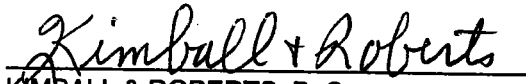

KIMBALL & ROBERTS, P. C.
Certified Public Accountants

June 29, 2006
Richfield, Utah

The Honorable Board Members
Sevier County Special Service District #1
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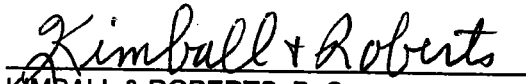

KIMBALL & ROBERTS, P. C.
Certified Public Accountants

June 29, 2006
Richfield, Utah

The Honorable Board Members
Sevier County Special Service District #1
Page -2-

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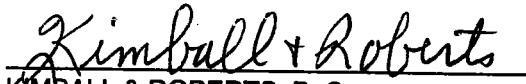

KIMBALL & ROBERTS, P. C.
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June 29, 2006
Richfield, Utah

The Honorable Board Members
Sevier County Special Service District #1
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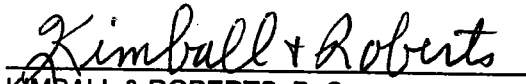

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The Honorable Board Members
Sevier County Special Service District #1
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KIMBALL & ROBERTS, P. C.
Certified Public Accountants

June 29, 2006
Richfield, Utah